

# Survey of Real Estate Trends

An Assessment by Senior Examiners and Asset Managers at Federal Bank and Thrift Regulatory Agencies

## RESULTS OF THE APRIL 1997 SURVEY

### Highlights

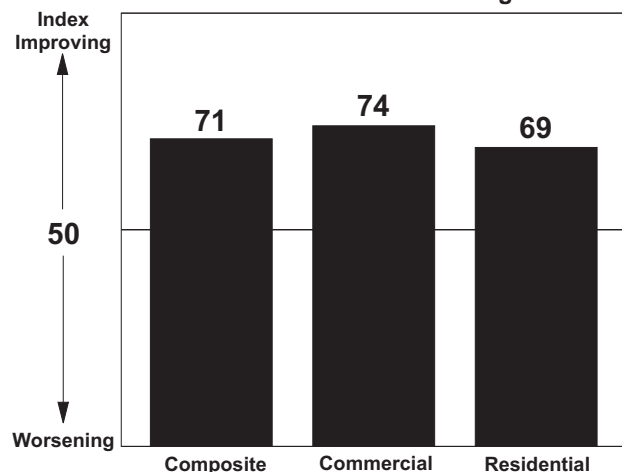
- In April, the national composite index, summarizing responses from 309 federal banking and thrift agency senior examiners and asset managers to the ***Survey of Real Estate Trends***, reached 71, up from 68 a year ago.
- Forty-nine percent of the observers reported that the general direction of the commercial market was better in April than three months earlier. Respondents reporting excess supply in the commercial real estate market declined to 22 percent. The percentage of respondents who reported that demand for new office space was higher than three months earlier rose for the fifth consecutive period to 40 percent.
- Gains in the residential markets accelerated. Forty-four percent of the respondents noted improvement in residential markets — up 6 percentage points in April and double the previous increase. More respondents also reported increases in sales prices and above-average volume of home sales.
- Survey respondents in the West were the most positive of any survey to date. The composite index reached 81, mainly due to the 13-point-increase in the composite index in the commercial real estate market.

### Introduction

Respondents to the FDIC's latest quarterly ***Survey of Real Estate Trends*** noted improvements in real estate markets across the country. The survey asked senior examiners and asset managers from all federal bank and thrift regulatory agencies in late April about developments in their local real estate markets during the previous three months. Overall results were positive. The observers' confidence may partially reflect the continuing improvement in housing and commercial market statistics released last year and early this year by the Bureau of the Census and other sources.

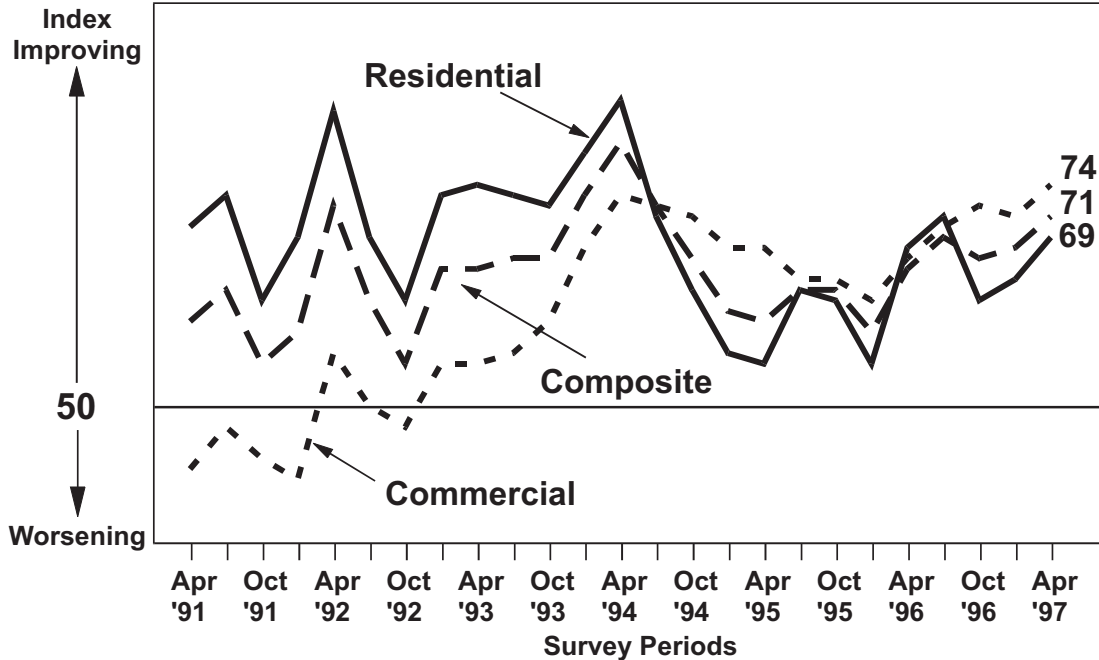
### REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN APRIL 1997

Summary Indices of Opinions of  
Senior Examiners and Asset Managers



## CHANGING ASSESSMENTS OF REAL ESTATE CONDITIONS

### Summary Indices of Opinions of Senior Examiners and Asset Managers



Survey results showed widespread gains in both residential and commercial markets. The sharp increase in reports showing improvement in commercial markets in the West was particularly noteworthy, mainly reflecting reports from California. Improvements in residential markets occurred in the Northeast and Midwest.

#### **National Overview: Summary Indices**

The national composite index increased 3 points from 68 in January 1997 to 71 in April 1997. This was the largest gain reported since April 1996 when the index jumped 7 points to 67. It remained between 67 and 68 for the following three reporting periods. The April index reflected positive trends in market activity in all four regions, particularly in the West, which registered a composite index of 81.

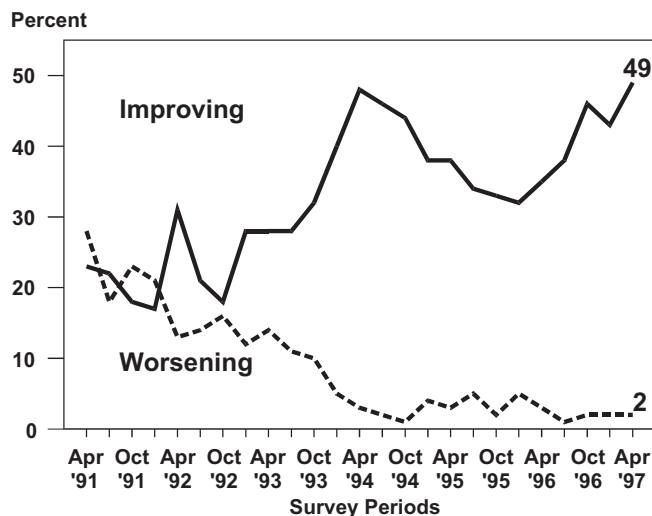
Both the residential and commercial composite indices also rose in the latest survey. Increases in the commercial index in both the South and West boosted this reading to 74. The residential index also continued to rise, increasing 4 points since the previous survey in January to 69 in April. Reports from the Northeast and Midwest were largely responsible for this increase.

The composite index and other indices summarize responses to the question of whether real estate markets have improved, deteriorated, or remained the same during the prior three months. Values above 50 indicate that more examiners and asset managers at federal bank and thrift regulatory agencies thought conditions were improving rather than declining. Values below 50 indicate the opposite. A value of 50 indicates either a balance between those reporting improving *versus* worsening conditions or agreement that conditions were unchanged.

## Record Gains in Commercial Markets

The 49 percent of respondents reporting gains in commercial real estate markets in April 1997 was up considerably from the 35 percent in April of last year and coincided with improvements in other published measures of commercial markets. Except for a slight, perhaps seasonal, downturn in January 1997, market assessments have improved steadily since January 1996.

**PERCENT OF RESPONDENTS REPORTING COMMERCIAL REAL ESTATE MARKETS WERE ...**

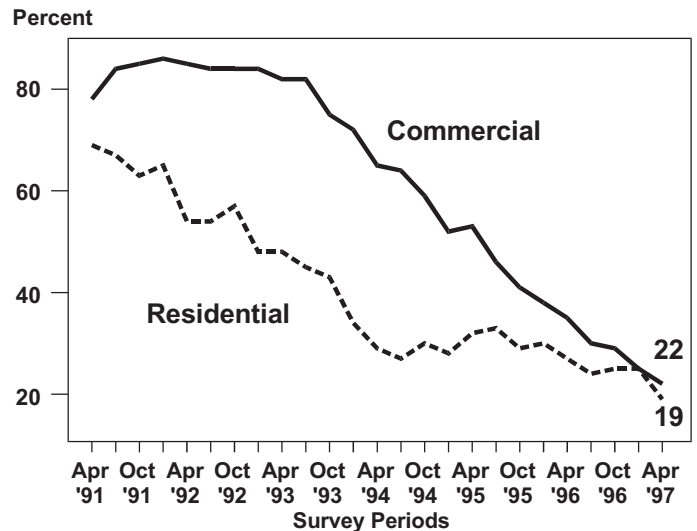


While the results were mixed across regions, the West showed the largest change in respondents reporting better conditions relative to the previous period — a 26-percentage-point increase to 75 percent in April. Most of this rise came from the group who had previously reported no change in conditions.

Reports of excess supply continued to decline for the eighth consecutive period to the lowest percentage since this survey began in 1991. Only 22 percent of those queried cited excess commercial space, compared with 35

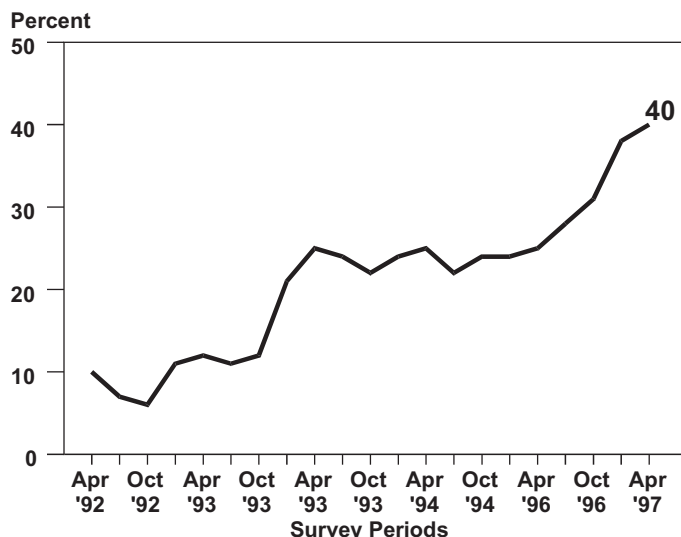
percent one year ago. Conversely, reports of tight supply reached a record high — 14 percent of the respondents — since this survey began. The proportion of respondents reporting tight supply reached record levels in every region.

**PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN REAL ESTATE MARKETS**



There were other signs of improvement. The proportion of respondents citing higher demand for new office space increased for the fifth consecutive period to 40 percent. Further, the proportion characterizing vacancy rates as above average dropped to 20 percent, a new low. This reading may partially reflect statistics from the Bureau of the Census that showed steady declines in the national office vacancy rates in downtown areas during 1996. At 48 percent, the proportion of the respondents characterizing commercial real estate sales prices as increasing was 15-percentage points higher than twelve months ago. Average or above-average sales volume of commercial properties were reported in 86 percent of the markets, also a record for the survey.

### PERCENT OF RESPONDENTS REPORTING HIGHER DEMAND FOR NEW OFFICE SPACE



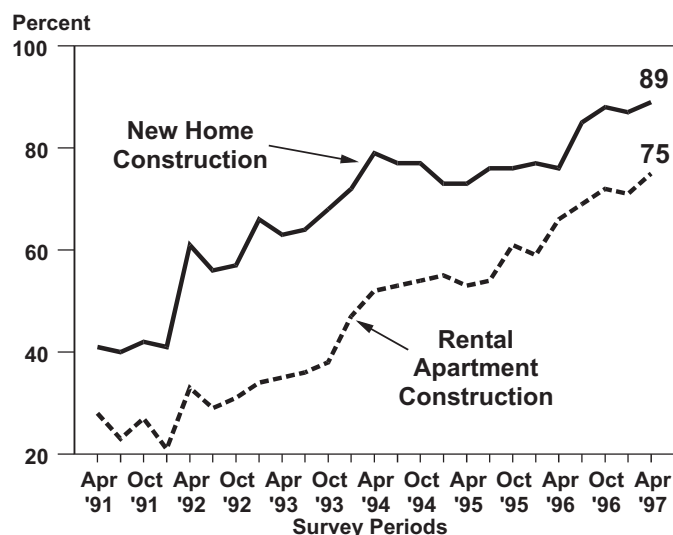
### Gains in Residential Markets Accelerated

Optimistic assessments of overall housing market trends accelerated in April after a small uptick in January. Forty-four percent of the respondents reported improvements in residential markets — the largest proportion since July 1996. In the Northeast, the proportion of positive assessments jumped to 50 percent from 38 percent in January. In the Midwest, this proportion increased 10 percentage points to 36 percent during the same period.

Additionally, the 19 percent of the respondents noting an excess supply of residential real estate in April was a new low. Conversely, 16 percent said their local housing markets were marked by tight supply — the highest proportion since April 1994. Reports of tight supply increased in every region. Consistent with these opinions are data published from the Bureau of the Census showing rising sales of both new and existing homes during 1996 and declining rental vacancy rates during the first quarter of this year. More detailed questions about housing markets indicated that residential activity was heating up. For example, the proportion of the respondents

noting increasing sales prices of existing homes rose to 54 percent in April after declining in the previous two reporting periods. Forty-one percent of the respondents — representing a 5-percentage-point increase from January — reported that the volume of home sales was above average. Again, these opinions were consistent with residential sales data released by the Bureau of the Census. Respondents also reported improved conditions for residential construction in April. The proportion of respondents reporting new home-building at above-average or average levels increased to 89 percent from 87 percent in January. Further, seventy-five percent of the respondents reported apartment construction at above-average or average levels, up from 71 percent in January.

### PERCENT OF RESPONDENTS REPORTING AVERAGE OR ABOVE-AVERAGE VOLUME OF RESIDENTIAL CONSTRUCTION

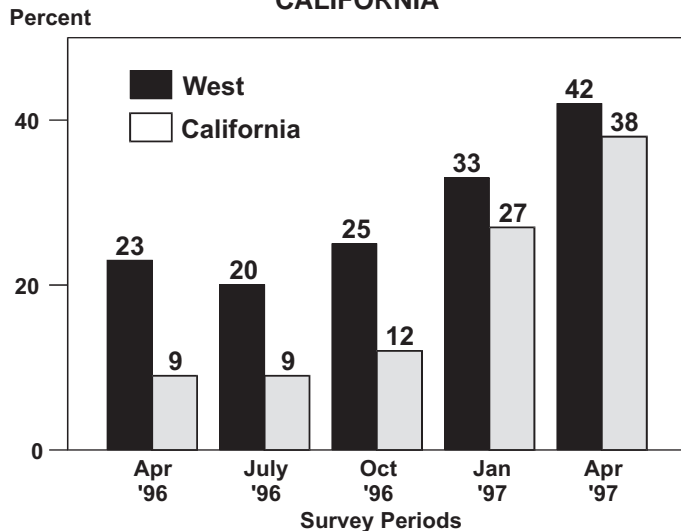


### Regional Trends

Respondents in the West were the most positive of any survey to date. The composite index of 81 in April was not only the highest of any of the four regions but also a record since the survey began. This high reading was primarily attributable to the 13-point-increase

from January in the composite index for commercial markets, which rose to 87 in April. Gains in the commercial market conditions were noted by 75 percent of the respondents, up 26 percentage points from the previous three-month period. Other indicators were also noteworthy. Sixty-three percent of the respondents thought that commercial real estate sales prices were increasing, up 28 percentage points from a year ago, and the proportion of the respondents that characterized vacancy rates as below average rose to 37 percent, up from 32 percent a year earlier. Statistics from the Bureau of the Census for office vacancy rates in specific downtown areas in California also declined from 1995 to 1996. Forty-two percent of the respondents in the West described the volume of sales as above average, up 19 percentage points from a year earlier. Positive reports from California were largely responsible for these readings.

**PERCENT OF RESPONDENTS REPORTING AVERAGE OR ABOVE-AVERAGE COMMERCIAL REAL ESTATE SALES IN THE WEST AND CALIFORNIA**



Just as the respondents from the West were positive about the commercial market, respondents from the Northeast reported improvements in the residential market. The residential composite index jumped 14 points from April 1996 to 72 in April 1997. Assessments of overall housing market trends strengthened substantially over the year, with

the proportion of respondents that reported better conditions increasing to 50 percent — up 20 percentage points since last April. Examiners continued to note with greater frequency rising home sales and sales prices. These opinions coincided with increased sales from the fourth quarter of last year to the first quarter of this year in new and existing homes in the Northeast, as reported by the Census Bureau. Census data also showed increases in median home sales prices during the same period for the Northeast.

### ***Data and Method of Presentation***

The survey results presented at the end of this report are summarized in indices calculated by Census regions for both residential and commercial real estate markets. The national indices are an aggregation of the regional results.

The survey respondents included 309 examiners and asset managers experienced in evaluating real estate loan portfolios or in marketing real estate assets. The FDIC respondents included its most senior experts from the Division of Supervision and from the Division of Resolutions and Receiverships. Senior real estate examiners from the Office of the Comptroller of the Currency, the Federal Reserve System, and the Office of Thrift Supervision also participated in the survey.

The number of respondents in the survey is down considerably from the 500-plus persons when the survey began in 1991. This decline reflects both the fact that the survey had included a large number of asset managers from the RTC, which closed at the end of 1995, and recent FDIC downsizing due, in part, to declining inventories of real estate assets in receivership from failed banks.

The survey was designed and analyzed by the Division of Research and Statistics at the FDIC. Questions may be directed to Virginia Olin (202-898-8711) or Daniel Bean (202-898-3931). Geri Bonebrake, Donna Schull, and Lisa Peterson provided production support. Markets Facts, Inc. conducted the survey.

**TO RECEIVE FUTURE COPIES OF THE  
FDIC *SURVEY OF REAL ESTATE TRENDS* . . .**

**This *Survey* is conducted quarterly. If you would like your  
name to be placed on the mailing list, please write to:**

FDIC  
Public Information Center  
801 17th Street, NW  
Washington, DC 20434-0001

# **Survey of Real Estate Trends**

An Assessment by Senior Examiners and Asset Managers at Federal Bank and Thrift Regulatory Agencies

## **APPENDIX**

## SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	71	74	69
Northeast	70	68	72
South	70	74	67
Midwest	66	68	64
West	81	87	76

Improving market: Index Value > 50

Declining market: Index Value < 50

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**Notes to Users:** The indices presented above were compiled for both residential and commercial real estate markets for the four major U.S. Census Bureau regions. Each regional index is a summary measure of the respondents' opinions about changes in market conditions in the past three months. The number of respondents by region was: Northeast (58), South (103), Midwest (88) and West (60). The national totals include a small number of responses that could not be classified by region.

In constructing the index, a value of 100 was assigned to responses indicating the conditions were "better," and a value of 0 was given to responses saying conditions were "worse." A "no change" answer was assigned a value of 50. Commercial and residential indices at the regional level are the sum of these values divided by the number of respondents in that region for that type of property.

Composite indices at the regional level are the weighted average of the residential and commercial indices for each region. The weights for each region are calculated using the value of construction permits for residential and commercial markets from 1982-1991. National indices are weighted averages of the comparable market measure of each region. The data for both the residential and commercial market weights are from the U.S. Bureau of the Census.

An index value of 50 indicates that the examiners and liquidators responding to the survey believe there has been no change in trends over the last three months. In this case, the opinion of respondents is either unanimous that there has been no change or is, on average, evenly distributed between those who believe the market has improved and those who believe the market has declined. An index above 50 indicates that the number of respondents reporting improvement exceeds the number reporting a worsening of conditions. An index below 50 indicates that the number of respondents reporting a worsening of conditions exceeds the number reporting improvement. The higher the index is above 50, the greater the preponderance of respondents who reported improvement over the number who reported a worsening of conditions.

### Census Regions:

*Northeast* — Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

*South* — Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

*Midwest* — Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

*West* — Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming



## OVERVIEW

### REAL ESTATE TRENDS

#### COMMERCIAL MARKETS

**“What would you say is the general direction of the commercial market now compared with three months ago?”**

	A Lot Better	A Little Better	Same	A Little Worse	A Lot Worse	Not Sure	INDEX*
All	3%	46%	47%	2%	0%	0%	74
Northeast	4%	41%	45%	10%	—	—	68
South	4%	43%	53%	—	—	—	74
Midwest	—	38%	58%	2%	—	1%	68
West	7%	68%	23%	—	2%	—	87

#### RESIDENTIAL MARKETS

**“What would you say is the general direction of the residential market now compared with three months ago?”**

	A Lot Better	A Little Better	Same	A Little Worse	A Lot Worse	Not Sure	INDEX*
All	5%	39%	50%	6%	—	—	69
Northeast	7%	43%	45%	5%	—	—	72
South	4%	36%	55%	6%	—	—	67
Midwest	4%	32%	56%	8%	—	—	64
West	9%	49%	37%	5%	—	—	76

### CURRENT REAL ESTATE CONDITIONS

#### COMMERCIAL MARKETS

**“In general, how would you characterize the commercial real estate market?”**

	Tight Supply	Supply and Demand Roughly in Balance	Excess Supply	Not Sure
All	14%	63%	22%	1
Northeast	10%	55%	35%	—
South	12%	67%	21%	—
Midwest	13%	73%	13%	1
West	21%	51%	25%	4

#### RESIDENTIAL MARKETS

**“In general, how would you characterize the residential real estate market?”**

	Tight Supply	Supply and Demand Roughly in Balance	Excess Supply	Not Sure
All	16%	64%	19%	1
Northeast	11%	50%	38%	2
South	15%	69%	16%	—
Midwest	18%	68%	13%	1
West	22%	61%	17%	—

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.

\* - See page 8 for an explanation of the Index.

## KEY MARKET INDICATORS

### RESIDENTIAL

#### “How would you characterize the current volume of home sales?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	4%	37%	50%	8%	—	0%
Northeast	2%	27%	54%	18%	—	—
South	7%	40%	51%	3%	—	—
Midwest	2%	35%	56%	7%	—	—
West	5%	46%	39%	9%	—	2%

#### “How would you characterize sales prices of existing homes?”

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	2%	52%	39%	6%	—	0%
Northeast	—	41%	46%	13%	—	—
South	2%	53%	42%	4%	—	—
Midwest	2%	62%	29%	6%	—	1%
West	5%	48%	42%	5%	—	—

#### “How would you characterize the current volume of new home construction?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	5%	40%	44%	11%	—	—
Northeast	2%	32%	41%	25%	—	—
South	10%	44%	43%	4%	—	—
Midwest	2%	42%	51%	5%	—	—
West	5%	39%	39%	17%	—	—

#### “How would you characterize the current volume of rental apartment construction?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	6%	23%	46%	20%	3%	2%
Northeast	—	4%	43%	43%	9%	2%
South	11%	43%	36%	8%	1%	2%
Midwest	4%	18%	52%	24%	1%	1%
West	7%	17%	56%	15%	3%	2%

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.

## KEY MARKET INDICATORS

### COMMERCIAL

#### “How would you characterize vacancy rates in commercial real estate?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	1%	19%	50%	25%	4%	1%
Northeast	4%	31%	43%	14%	4%	4%
South	1%	13%	57%	25%	3%	1%
Midwest	—	14%	54%	29%	2%	1%
West	—	23%	40%	28%	9%	—

#### “How would you characterize the volume of sales of commercial real estate properties?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	2%	25%	59%	13%	—	2%
Northeast	2%	18%	57%	22%	—	2%
South	4%	27%	58%	10%	—	1%
Midwest	—	16%	74%	7%	—	4%
West	—	42%	40%	18%	—	—

#### “How would you characterize commercial real estate sales prices?”

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	1%	47%	48%	2%	—	2%
Northeast	—	35%	57%	8%	—	—
South	2%	47%	49%	—	—	3%
Midwest	—	46%	50%	1%	—	2%
West	2%	61%	35%	2%	—	—

#### “How common are rent concessions now compared with three months ago?”

	Much More Frequently	Somewhat More Frequently	About The Same	Somewhat Less Frequently	Much Less Frequently	Not Sure
All	0%	5%	59%	28%	3%	5%
Northeast	2%	12%	53%	29%	2%	2%
South	—	2%	68%	22%	3%	5%
Midwest	—	4%	60%	26%	4%	7%
West	—	4%	49%	40%	4%	4%

#### “How would you characterize the demand for new office space in your area now compared with three months ago?”

	Much Higher	Somewhat Higher	About The Same	Somewhat Lower	Much Lower	Not Sure
All	2%	38%	56%	5%	—	0%
Northeast	—	43%	49%	8%	—	—
South	2%	36%	57%	4%	—	1%
Midwest	1%	29%	66%	5%	—	—
West	4%	47%	46%	4%	—	—

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.